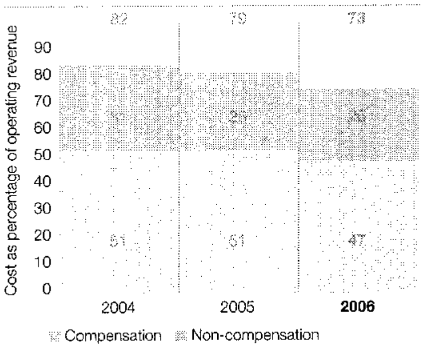
Costs

Whilst the overall cost base has grown in the year, the ratio of total costs to operating revenues has fallen to 73 per cent. in 2006 from 79 per cent. in 2005.

Overall compensation costs have risen this year by £35.4 million (11 per cent.), reflecting in part increased headcount during 2005 and 2006, however, the ratio of total compensation costs to operating revenues has reduced to 47 per cent. (2005: 51 per cent.), below our target for 2006 of 49 per cent. In the long term this ratio is targeted to reduce further to 45 per cent.

Total costs: operating revenues ratio %



Non-compensation costs amounted to 26 per cent. of operating revenues in the year. We have continued to invest in both our product and infrastructure capabilities.

The primary drivers of increased non-compensation costs in Asset Management during the year were marketing and increased operational costs following the termination of the JP Morgan outsourcing contract, as well as spending on infrastructure replacement projects.

Private Banking costs increased as a result of expenditure on a project to centralise operations in Zurich. This project is expected to lead to lower costs in the second half of 2007.

Group costs were lower due to a decrease in spending on financial systems against 2005 and reduced provisioning for vacant space in our London offices, partially offset by higher staff costs.

Profit before tax

Headline profit before tax grew strongly by 16 per cent. to £290 million. It increased by 26 per cent. on an underlying basis, excluding the effect of the one-off payment received in 2005 on the discontinuation of the JP Morgan outsourcing contract.

Profit after tax

Profit after tax also increased strongly, up overall by 15 per cent. to £222 million, and up 24 per cent. on an underlying basis.

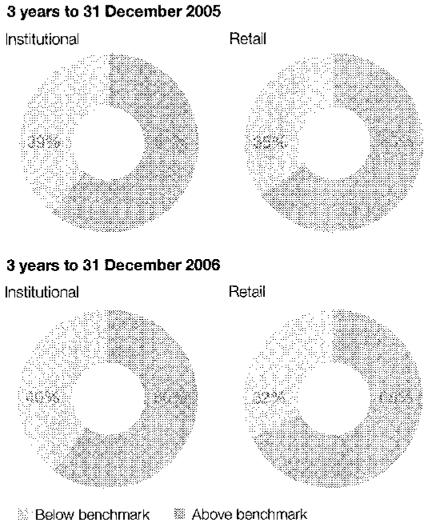
The tax rate of 23 per cent. in 2006 is similar to the tax rate for 2005. This is lower than the current UK corporate tax rate of 30 per cent. principally because of the level of profit arising in low or nil tax jurisdictions.

We have maintained our levels of investment performance

Funds performance

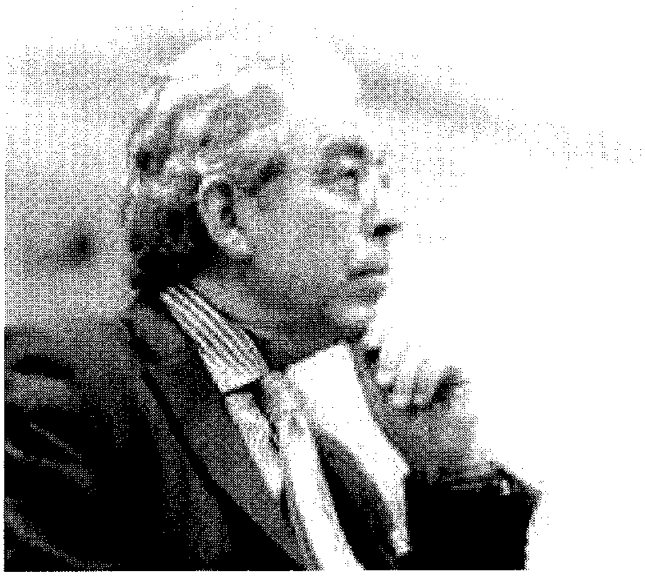
Investment performance

Percentage of Institutional and Retail assets above and below benchmark



The segmental analysis of results is shown in more detail in note 2 on pages 53 to 55.

Looking across our range of funds, 64 per cent. of fund assets have performed above their three-year benchmark in 2006, compared to 63 per cent. in 2005.



2006 saw recognition of our success across asset classes, client segments and geographies. Awards included:

Team	Award	Sponsor
Opus Credit	Best Performing Fund of Hedge Funds (Specialist)	Hedge Fund Review's European Hedge Funds Awards 2006
Schroders Australia	Australian Equities Fund Manager Best Overall Fund Manager	Australian Fund Manager Awards 2006
UK Institutional	Business Development Team of the Year	Financial News Awards 2006
Schroders Argentina	Fund Manager of the Year 2006	Standard & Poor's
Schroder Recovery Fund	UK All Companies Best Fund	Moneywise Fund Awards

We continue to enrich our product range

We have launched a number of successful funds in 2006, including:

- European Special Situations Fund
- BRIC (Brazil, Russia, India, China) Fund
- Diversified Growth Fund
- Sterling Broad Market Fund
- Agricultural Commodities Fund
- European Real Estate Fund of Funds

During 2006 we built up the life assurance company established in 2005 to help meet the demands of the defined contributions market in the UK. As at 31 December 2006 this company was responsible for over £1.5 billion of funds under management.

Our acquisition during the year of NewFinance Capital enhanced our capabilities in the hedge funds of funds product area.

We announced during the year the intended acquisition of Aareal Asset Management. This acquisition, which completed in February 2007, extends our coverage of the property sector across continental Europe.

Sales

Sales to Retail clients saw net inflows of £3.8 billion (2005: net inflows of £nil) with strong sales performance in UK and European retail products.

Sales to Institutional clients saw net outflows of £8.0 billion (2005: net outflows of £5.9 billion) with the main outflows in UK balanced mandates and Japanese equities.

Private Banking achieved net sales inflows of £0.4 billion (2005: £0.6 billion).

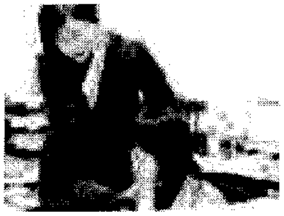
Net new business for the year was a net outflow of £3.8 billion (2005: net outflow of £5.3 billion).

The estimated annualised revenue effect of net new business in the year is an increase of £28.9 million.

The profits we generated were used in a number of ways

We distributed funds to shareholders

£120 million of the funds earned in the year were distributed to shareholders via the payment of dividends and the repurchase of our own shares.



Our Global Quantitative Equity product achieved its 7th consecutive year of out-performance*.

*** Schroder Global Quantitative Core Composite relative to MSCI World NDR**

The dividends declared and paid in 2006, being the final dividend for 2005 and the interim dividend for 2006, came to 22 pence per share or £63.4 million, an increase of £3.9 million on 2005. Share buybacks net of inflows from the exercise of share options totalled £56.5 million in the year.

A final dividend of 17.5 pence per share or £49.7 million has been recommended.

We invested in organic growth

- We are continually looking at ways of improving our product offering, investing in our people and increasing operational efficiency. During the year we increased average headcount across the business by 163 as well as spending £42 million on infrastructure projects.

We invested in acquisitions

- In 2006 we acquired NewFinance Capital, a London-based manager of funds of hedge funds, for an initial consideration of £57.4 million. This added £1.4 billion of funds under management at acquisition. The business was amalgamated with our existing funds of hedge funds business so as to ensure a consistent level of institutional quality for our clients. Since the acquisition our revenues in this area have seen a strong increase and funds under management ended the year at £1.9 billion.

- In December 2006 we announced the purchase of Aareal Asset Management GmbH ('AAM') and related companies, a pan-European property asset manager based in Germany. AAM had assets under management of €1.9 billion as at September 2006, managing seven property funds across European markets. This acquisition, which provides the platform to extend our successful UK property business across Continental Europe, completed on 28 February 2007.

We maintained our pool of working and investment capital

Schroders has a substantial pool of capital to support the business, derived from retained earnings and the proceeds from the sale of its investment banking business in April 2000, divided between:

Regulatory and working capital – £654 million (2005: £463 million)
This represents the Group's investment in the underlying operating companies and the capital required for the day to day management of the business together with retained profits awaiting distribution to the Group holding companies. The increase in the year is made up of:

Increase in regulatory capital	£29m
Increase in retained profits	£54m
Effect of new business	£64m
Other	£44m
Total	£191m

Investment capital – made up of:

Liquid funds – £312 million (2005: £412 million)
The lower risk tranche of investment capital, designed to give flexibility to react to the changing requirements on the business. This is managed against a target return of LIBOR. The return on these assets in the year was 4.3 per cent. (2005: 4.3 per cent.).

Other investment capital – £477 million (2005: £468 million)
This comprises investments to support existing products and businesses via short-term seed capital investments as well as longer-term investments in hedge, property and private equity funds. These are managed against limits defined for each type of investment. The return for the year on these investments reflected in the income statement was 15.8 per cent. (2005: 17.3 per cent.). In addition, unrealised profits from this area added a net £32 million to shareholders' equity in 2006 (2005: £2 million).

The strength of our capital position not only enables us to maintain our credit ratings but also provides our clients and investors with continued confidence in the resilience of our business over the long term and gives us the flexibility to consider acquisition opportunities as they become available.

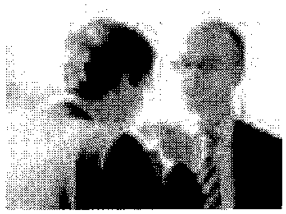
We are a People Business

Our employees continue to be the most important asset of the Group. We have great talent throughout Schroders and it remains a priority for us to develop, manage and retain this talent in order to deliver our potential as an organisation. Schroders is a place where talented professionals can develop their skills and experience throughout a rewarding and challenging career.

We aim to recruit and retain outstanding people and we invest in their professional and personal development. Our recruitment, performance review and development planning processes are designed to find, train and motivate people to achieve the best results for Schroders and for our clients.

Our Emerging Markets equity team increased assets under management by 83 per cent. to

£4.8bn



We employ more than 2,600 people in five continents and our aim is to be an employer of choice wherever we operate. For us, this means ensuring that our employees understand the strategic aims and objectives of the Group and are clear about their role in achieving them. It also means that we work to ensure that employee policies and treatment reflect current legislation and best practice within each of the countries in which we operate.

In 2006 we focused on the identification and development of our talented people at all levels of Schroders. Initiatives included:

- Establishing a clear framework of competencies to underpin all performance management and development activities;
- Making available a broad range of training courses to build the competencies identified;
- Delivering intensive development programmes for our most talented people including observation, feedback, coaching and personal development plans.

Our infrastructure is continually reviewed against the needs of our business

Our organisational model is designed to ensure efficiency across the business.

Our unified investment function allows the sharing of investment and research excellence and disciplines across the organisation, and ensures a common understanding of best practice.

We have three key international investment centres located in the UK, US and Singapore. Our administrative systems are similarly concentrated in a few key centres – London, Singapore, Luxembourg and Switzerland. This ensures a wide reach across the globe while delivering economies of scale in both front and middle offices and the associated operations and administration platforms.

The Schroders brand, supported by sub-branding as appropriate, is used in all our product areas and geographies and is recognised across the industry.

We continue to invest in our infrastructure to roll out the Target Operating Model (TOM) defined in 2005 at the time of the termination of our outsourcing arrangements with JP Morgan, which required the renewal of a number of the core components of our systems architecture as well as enhanced process automation.

Implementation of the TOM commenced during 2006, the major project being the replacement of our existing portfolio systems with a single Book of Records, which will support all aspects of our investment business, from portfolio accounting to client reporting. This strategic solution is expected to take three years to implement and will provide a platform capable of supporting Schroders' business development across the next 10-15 years.

Other projects in the pipeline include enhancing performance measurement and attribution analysis, automating reconciliation processes, streamlining the flow of data between systems and enhancing our derivatives capabilities.

NewFinance Capital's Opus Credit Fund won 'Best Performing Fund of Hedge Funds (Specialist)' at the Hedge Fund Review's European Hedge Funds Awards 2006.

Another major project is the migration of the local support for our London and Guernsey based Private Banks to Zurich. This is expected to complete during the first half of 2007 and will deliver an integrated service centre for Private Banking, reducing complexities in the operating platform, increasing automation and raising business efficiency.

Across our business we are seeing a number of long-term changes

Key global demographic trends are changing the outlook for savings and therefore the long-term outlook for Schroders.

- In the major western economies alone average life expectancy has increased by over 10 per cent. in the period 1960 to 2005, with further increases expected. Taking a retirement age of 65, life expectancy post-retirement has nearly tripled in this period.
- Birth rates are falling across the major western economies. Allied to increased life spans this will dramatically increase the ratio of non-working age individuals to those of working age (20-65) in the next 30-40 years.

Increased life expectancy will require savers to accumulate even more assets before retirement in order to generate income that will last them through their retirement years. At the same time reduced birth rates will decrease the supply of new workers to help fund longer-living retirees. This will have a major impact on the cost of state-provided pensions, and suggests that few individuals in developed economies will be able to rely solely on government pension schemes to fund their retirement.

At the same time as feeling the impact of the prospective increase in the longevity of their members, the weak equity markets in 2000-2003 and changes in accounting practices have left many company defined benefit pension schemes under-funded and exposed to risks they find difficult to control. Many company schemes have been closed to new members and others have ceased altogether to provide benefits.

Unable, therefore, to rely on the state or their employers to provide adequate earnings-related defined benefit pensions for them in retirement, many of today's workers are increasingly obliged to take personal responsibility for their savings through defined contribution systems.

These changes have significant implications for the nature of both institutional and retail savings offerings going forwards.

Long-term trends in savings offer a number of opportunities

In our view, the pre-retirement market for retail investing will contain a growing number of individuals who have been placed at the centre of the decision-making process. These people will want to build up enough capital to support them in retirement and will increasingly require investment solutions that are not only tailored to match their risk/return profiles now, but can potentially adapt to their profiles as they change over time.

Additionally, retail investors in the post-retirement phase will control an increasing proportion of total savings. If savings products are required to provide individuals with the ability to use their savings to fund a comfortable retirement, then reliable capital growth pre-retirement and income and capital preservation post-retirement will be key features.

Parallel developments are appearing already in the residual defined benefit portion of the institutional market, where trustees are showing a greater desire for products which match their liabilities and give them greater certainty over required funding levels, reducing risk and volatility for their corporate sponsors, rather than focusing purely on long-term capital growth.

The market for retirement products is already the largest driver of growth in financial services. In Europe this market is worth an estimated €43 billion in pre-tax profits to providers every year, and it is projected to grow 10 per cent. annually over the next five years.

Our US Smaller Companies fund is 5 star rated by Morningstar and has performed in the top 20 per cent. of its peer group over three years.

We are well placed to take advantage of these opportunities

We have expanded our product range, in both Retail and Institutional, to give us an offering that we believe meets the needs of our current and future client base.

As well as equity and bond products, our Retail product suite includes yield-based and inflation plus products across fixed income, property and equity as well as a range of retail structured products. These products allow individual investors greater exposure to a more diversified product range and new investment strategies, allowing them to maximise their savings consistent with their personal risk profiles. We have also been working with intermediaries to enhance the packaging of combined investments to provide a range of lifestyle savings products designed to suit different stages of life and financial circumstances.

Our Institutional range has been extended beyond traditional equity and bond single focus funds to include products such as the Diversified Growth Fund which provides investment exposure to a range of asset classes, including alternatives, in such a way as to diversify asset class risk while enhancing total expected return. Products such as these, combined with a significant upgrade in our derivatives capabilities, help us to meet the growing demand for liability driven and specialist products for pension fund trustees and plan sponsors facing a new and challenging environment.

Looking forwards to 2007 our continuing investment across the business will focus on a number of areas.

In the Retail channel we plan to extend and deepen our distributor relationships in a number of geographies and sub-channels. These include US intermediaries, bank intermediaries in Japan, private bank distributors in Asia Pacific and the retail branch networks of bank distributors in Continental Europe, whilst in the UK we will focus on developing further the sub-advisory channel. These initiatives are intended to grow business volumes as well as ensuring that, through the intermediaries in these channels, we secure enduring business relationships with end investors that are less vulnerable to large-scale redemptions driven by changes in asset allocation policy by wholesale distributors.

In the Institutional channel, clients are looking for increased exposure to alternative asset classes – a demand we are well placed to meet with our property, hedge fund, commodity and private equity capabilities. Our strength in a wide range of asset classes plays well to the increasing market requirement to manage long-term pension liabilities within structured investment plans combining fixed income, derivative and diversified alpha (excess return) products. Alongside these newer products, we continue to see growth in demand for our services in global equities and fixed income as well as key regional asset classes such as European

In Asia, excluding Japan, we generated gross sales of

£7.1bn

Equities. We are also looking to offer more quantitative equity products to our institutional clients, where our investment approach has a proven track record of excess return over many years and complements our fundamental, research-driven active management services.

We have a number of specific business risks which we manage actively

As with any successful business we are exposed to a range of risks. Some of them, like the risks inherent in taking active investment decisions on behalf of clients, are the risks we are in business to take. Our focus here is on managing risk rather than eliminating it. Others, like regulatory and compliance risk, are risks that we seek actively to avoid.

We monitor performance across more than 20 company-wide risk categories throughout the year. Risks are managed in a variety of different ways, depending on the nature of the risk and the areas potentially affected, to ensure that wherever appropriate, their impact is mitigated.

Our key risks include:

Employee risk

The increasing requirement for scarce, specialist skills in our employees as our product offering deepens and our investment strategies move forward into more complex areas.

- The increase in profits in recent years has enabled us to provide competitive compensation plans, with appropriate deferred benefits, targeted at key staff.
- Setting clear objectives and measuring success in the annual review process allow us to clearly identify employee development initiatives required to deal with our changing environment.
- Additionally, in 2006 we have been broadening the skills base in the company via a programme of high-level technical education for staff in Investment. This programme is continuing through 2007.

Investment risk

The risk that poor investment decisions lead to under-performance in funds and a resultant reduction in our income and reputation.

- Individual fund performances and risk profiles are monitored on a regular basis through the year, allowing issues in these areas to be tracked and remediated as they emerge.
- Recognising that not all products will perform all of the time, we offer a diversified product set which reduces the concentration of risk on the performance of any one fund or asset class.

Project risk

Ineffective project implementation which could lead to sub-optimal solutions being delivered on our key projects.

- We have a dedicated Change Management Team overseeing all major projects, ensuring that a consistent Group-wide rigour is brought to the initiation, approval and monitoring of such projects.
- We are not prepared to put projects into live production until we believe that they will deliver.

Product risk

The ongoing desire to anticipate changing client requirements by developing and delivering new products needs to be balanced with the existence of an already complex product range with over 150 products and over 300 investment models.

- We are clear that the challenge of dovetailing product development with an agreed view of client needs requires ongoing dialogue between the Investment and Distribution divisions, ensuring that the Group has a focused policy in this area.
- We have a dedicated product development team with clear product approval procedures which combines representation from Investment, Distribution and Infrastructure.

Business continuity risk

Underpinning our whole proposition is the need to ensure that in a global marketplace we are able to continue to operate in difficult conditions.

- Continuity planning is in place across the business with clear identification of key staff and their involvement in business resumption plans, as well as regular testing of communication plans.
- While the increase in the concentration of global systems presents further risks, additional resilience and contingency arrangements are in place including the relocation of the key computer servers away from London.
- Group-wide insurance is held against business interruptions that cause a loss of revenue.

Year on year, assets under management in Brazil more than doubled.

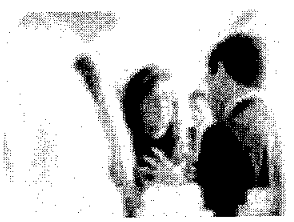
As an organisation the management of risk is embedded in our corporate culture, in the way we operate and the way we manage all aspects of our business.

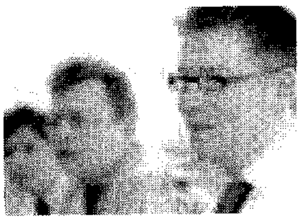
The senior management team, supported by a number of central advisory and independent review functions, takes the lead role in ensuring that proper controls are in place across the business to maintain the quality standards expected by our clients, by our various regulators across the globe and by ourselves. Key to our model is a philosophy that management by itself can only lead and inform in this area. It is the responsibility of all employees across the Group to ensure that the control culture of Schroders is embedded within our working practices and is central to everything that we do.

Summing up Schroders in 2006

2006 was a year of strong performance where we achieved 26 per cent. growth in underlying profits, the second most profitable year in our 202-year history and the most profitable since the sale of our investment banking operations in 2000. We saw improved performance in our core business areas with increased gross margins in Asset Management and the resumption of sales growth in our Retail business, coupled with strong growth in revenues and profits from banking and asset management in Private Banking.

Our programme of investing in the business, both organically and via acquisitions, will continue in 2007 and we believe that the Group is well positioned to meet the challenges that the future will bring.





Chairman

1. Michael Miles, OBE (70)
Chairman
(Chairman of the Nominations Committee), was appointed as a non-executive Director and Chairman of the Board on 1 January 2003. From 1958 to 1999 he worked for the Swire Group, serving as chairman of the Swire Group in Hong Kong and of Cathay Pacific Airways from 1984 until 1988. He was chairman of Johnson Matthey plc (1998 – 2006) and a non-executive director of BP plc (1994 – 2006). He is also an adviser to the board of John Swire & Sons Ltd, chairman of BP Pension Trustees Ltd and was a governor of Wellington College (1989 – 2005).

Executive Directors

2. Michael Dobson (54)
Chief Executive
joined the Board of Schroders as a non-executive Director in April 2001, and became Chief Executive in November of that year.

From 1973 to 2000 he worked for Morgan Grenfell and Deutsche Bank. He was chief executive of Morgan Grenfell Group from 1989 to 1996 and was a member of the Board of Managing Directors of Deutsche Bank AG from 1996 until 2000. He is a member of the investment committee and chairman of the audit committee of the King's Fund, a member of the advisory committee of the Staff Retirement Plan of the International Monetary Fund and chairman of the investment board of the Cambridge University Endowment Fund.

3. Jonathan Asquith (50)
Chief Financial Officer
joined Schroders and was appointed to the Board in January 2002, taking up his current position of Chief Financial Officer in March of that year. From December 2003 until September 2006 he held the position of Chairman of the Group's Private Banking division. He took on responsibility for the Property division in September 2006.

From 1979 he worked for Morgan Grenfell and was appointed as chief financial officer of Deutsche Morgan Grenfell in 1995 and chief operating officer in 1997. In 2001 he joined Barclays Private Bank, where he was head of UK private banking until his move to Schroders.

4. Alan Brown (53)
Head of Investment
joined Schroders in 2005 and was appointed to the Board in July of that year.

Between 1974 and 1995 he worked for Morgan Grenfell, Posthorn Global Asset Management and PanAgora Asset Management before joining State Street Global Advisors ('SSgA'). He served initially as managing director of the London office of SSgA, and later as group chief investment officer and vice chairman and executive vice president of State Street Corporation.

He is chairman and treasurer of the CERGE-EI US Foundation (Centre for Economic Research and Graduate Education – Economics Institute), an advisory council member of the CFA Centre for Financial Market Integrity and a member of the MSCI Barra Editorial Advisory Board.

5. Massimo Tosato (52)
Head of Distribution
joined Schroders in 1995, became Global Head of Retail in February 2001 and was appointed to the Board in August of that year. He became the Head of Distribution in September 2003.

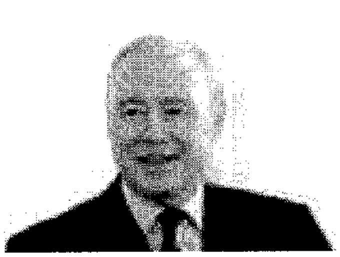
Between 1981 and 1992 he was a founding partner and chief executive officer of Cominvest SpA. From 1992 to 1995 he was a partner and managing director of Euromercantile SpA. From 1995 to 1999 he was responsible for Schroders' asset management activities in Italy and from 1999 to 2001 for continental Europe. He is a member of the International Advisory Board of Columbia Business School. From 2002 to 2005 he was an independent director of Banca Nazionale del Lavoro. In March 2005 he became a board director of the Parasol Unit Foundation for Contemporary Art, London.

Non-executive Directors

6. Andrew Beeson (62)
Independent non-executive Director
(member of the Audit, Nominations and Remuneration Committees), was appointed a Director on 1 October 2004.

He was the founder and CEO of the Beeson Gregory Group and subsequently chairman of Evolution Group plc following its merger with Beeson Gregory, before leaving in 2003. He founded the City Group for Smaller Companies in 1992 now known as QCA (Quoted Company Alliance) and became its first chairman.

Between 2001 and 2004 he was a director of IP Group Plc and is currently a non-executive director of Woolworths Group plc and Nelson Bakewell Holdings Limited, is on the advisory board of Armstrong Bonham Carter and is an adviser to DataWind Inc.



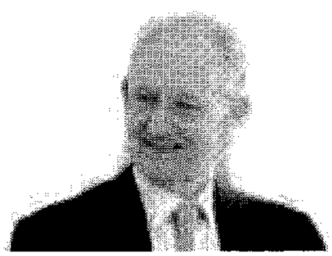
1. Michael Miles

2. Michael Dobson

3. Jonathan Asquith

4. Alan Brown

5. Massimo Tosato



6. Andrew Beeson

7. Luc Bertrand (56)
Independent non-executive Director
(member of the Audit and Nominations Committees), was appointed a Director on 1 March 2006.

He is chairman of the executive committee of the Belgian company, Ackermans & van Haaren N.V. which he joined in 1985. He was appointed managing director in 1990 and became chairman of the executive committee in 1996.

He started his career as a corporate financier with Bankers Trust in 1974. Between 1976 and 1980 he held various overseas posts, including positions in London and Amsterdam. He is an independent director of ING Belgium and Agridec N.V. He is also on the advisory council of INSEAD Belgium.

8. Sir Peter Job (65)
Senior Independent Director
(Chairman of the Remuneration Committee and member of the Nominations Committee), was appointed a Director on 29 February 2000 and was appointed Senior Independent Director in November 2003.

From 1991 to 2001 he was chief executive of Reuters Group plc. He is a non-executive director of Royal Dutch Shell plc and Tibco Software Inc. He is also a member of the supervisory board of Deutsche Bank AG and the advisory board of Mathon Systems Inc.

9. Merlyn Lowther (53)
Independent non-executive Director
(member of the Audit and Nominations Committees), was appointed a Director on 1 April 2004.

She joined the Bank of England Economics Division in 1975 and held various senior management positions within the Bank including personnel director from 1996 to 1998 and deputy chief cashier from 1991 to 1996. She was appointed Chief Cashier in 1999, a post she held until leaving the Bank in 2004. She is a trustee of Henry Smith's Charity and of the Winston Churchill Memorial Trust and is a member of the advisory group to the chief executive of Frogmore Property Company Ltd.

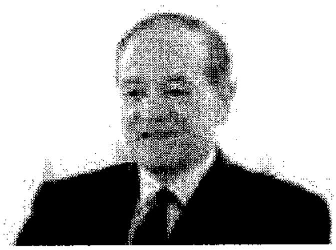
10. George W. Mallinckrodt, KBE (76)
President and non-executive Director
(member of the Nominations Committee), joined Schroders in 1954, was appointed as a Director in 1977 and served as Chairman from 1984 to 1995. He became President in 1995.

He was a non-executive director of Siemens Holdings plc between 1989 and 2000 and was an adviser to Bain & Company and chairman of the Council of the World Economic Forum. He is vice-president of the German-British Chamber of Industry & Commerce.

11. Kevin Parry, FCA (45)
Independent non-executive Director
(Chairman of the Audit Committee and member of the Nominations and Remuneration Committees), was appointed a Director on 1 January 2003.

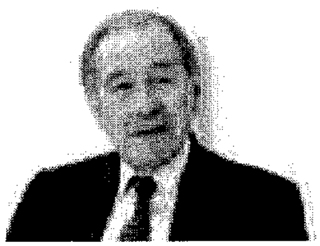
He qualified as a chartered accountant with KPMG in 1986 and became a partner at the firm's London office in 1994 and a senior partner in 1998. He moved to Management Consulting Group PLC in January 2000 as its chief executive. He is deputy chairman of the Royal Wanstead Children's Foundation and a non-executive adviser of Knight Frank LLP.

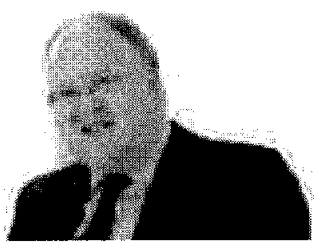
12. Bruno Schroder (74)
Non-executive Director
(member of the Nominations Committee), from 1954 to 1955 he worked for Schroder Gebrüder (Bank) in Hamburg and he joined the Schroder Group in London in 1960 where he worked in the Commercial Banking and Corporate Finance divisions of J. Henry Schroder Wagg & Co Ltd, London. In 1963 he was appointed a Director of Schroders plc. He is a director of a number of private limited companies.

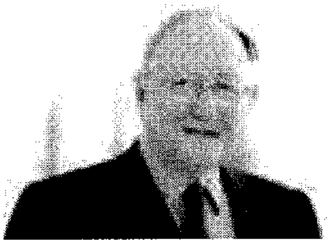

7. Luc Bertrand


8. Sir Peter Job


9. Merlyn Lowther


10. George W. Mallinckrodt


11. Kevin Parry


12. Bruno Schroder

Directors' report

The Directors are pleased to present their report for the year ended 31 December 2006. The information contained in the statement from the Chairman and the Chief Executive, the business review, the Directors' profiles, the corporate governance and the Nominations and Audit Committees' reports, risk management and internal control, corporate and social responsibility and the Directors' responsibility statement forms part of this Directors' report.

Principal activities and business review
Schroders plc is the parent company of an international asset management and private banking group.

A review of the Group's business during 2006 and likely future developments is contained in the statement from the Chairman and the Chief Executive and in the business review.

Results and dividends
The profit for the year attributable to equity holders of the parent company was £221.3 million, compared to £191.3 million for 2005. Dividends payable in respect of the year and their total value are set out below:

Ordinary shares and non-voting ordinary shares	2006 £mn	2005 £mn
Interim dividend 7.5p per share (2005: 7.0p)	21.4	20.3
Recommended final dividend 17.5p per share (2005: 14.5p)	49.7	42.0
Total dividend 25p per share (2005: 21.5p)	71.1	62.3

The final dividend, if approved by shareholders at the Annual General Meeting, will be paid on 27 April 2007 to shareholders on the register on 16 March 2007.

Investments and disposals
On 21 February 2006 we announced that we had signed an agreement to acquire NewFinance Capital, a London-based manager of funds of hedge funds, for a consideration of $101 million with up to a further $41 million contingent on certain revenue targets being met, to be paid over a four-year period. The acquisition completed on 3 May 2006.

On 14 December 2006, Schroders plc announced that it had reached agreement to acquire interests representing 99.7 per cent. of the share capital of Aareal Asset Management GmbH and its subsidiaries ('AAM'), a pan-European property asset manager based in Germany. Under the terms of the agreement, Schroders paid €27.9 million (£18.8 million) in cash on completion to Aareal Bank AG ('Aareal'), the sole owner of AAM. Schroders also acquired certain investments at a cost of €23.8 million (£16.0 million) from Aareal in the underlying funds managed by AAM and may acquire further investments managed by AAM for up to €29.8 million (£20.1 million) in the event that they are not sold by Aareal prior to 31 March 2007. The net tangible assets acquired are approximately €6.0 million (£4.0 million), although at the date of this report completion accounts had not yet been finalised.

Other than in connection with seed capital investments made in the ordinary course of business, there were no other major acquisitions or disposals of subsidiary undertakings during the year.

Directors
The names and biographical details of the Directors of the Company are given on pages 18 to 19. Luc Bertrand was appointed a Director of the Company on 1 March 2006 and his appointment was approved by shareholders at the 2006 Annual General Meeting.

The Articles of Association require each Director to retire from office not later than the third Annual General Meeting following his or her last election or re-election to the Board. Merlyn Lowther is retiring from office in accordance with the Articles and will offer herself for re-election on this basis at the Annual General Meeting.

In accordance with the Company's Articles of Association Michael Miles, George Mallinckrodt and Bruno Schroder, who are all over the age of 70, will retire from office at the forthcoming Annual General Meeting and will offer themselves for re-election.

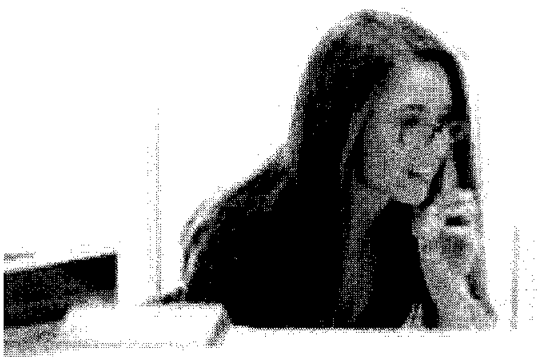
Details of the service contracts or terms of appointment, together with interests in the Company's shares, for those Directors in office during the year, are shown in the remuneration report on pages 28, 29, 31 and 32.

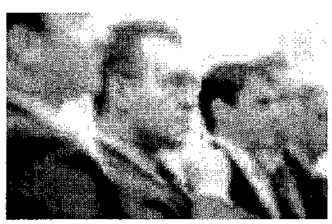
None of the Directors had an interest in any contract with the Company or any of its subsidiaries either during or at the end of the year.

Capital structure
The Company's share capital is comprised of ordinary shares and non-voting ordinary shares of £1 each. As at 31 December 2006, 226,022,400 ordinary and 67,853,473 non-voting ordinary shares were in issue, representing 76.9 per cent. and 23.1 per cent. respectively of the total issued share capital.

The non-voting ordinary share class was introduced in 1986 to permit the operation of an employee share option plan without diluting the voting rights of ordinary shareholders. Since then, non-voting ordinary shares have been used in connection with subsequent employee share and share option plans. The non-voting ordinary shares carry the same rights as ordinary shares except that they do not confer the right to attend and vote at any general meeting of the Company, and that on a capitalisation issue they carry the right to receive non-voting ordinary shares rather than ordinary shares. During the year, the Company issued 4,154,782 non-voting ordinary shares as a result of the exercise of awards under share and share options plans. Since the year end a further 275,081 non-voting ordinary shares have been issued under these plans

The Directors are requesting approval at the Annual General Meeting, for the reasons explained in the notice of that meeting, for the Directors to have for the first time a general authority to make limited issues of non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares, in addition to issues of non-voting ordinary shares under the Company's share and share option plans.





The Company does not intend that the issued share capital should increase over the medium term as a result of awards under the share and share option plans described in the remuneration report or as a result of the issue of non-voting ordinary shares or the grant of rights in respect of such shares under the authority mentioned in the previous paragraph. The Company therefore plans to purchase an equivalent number of non-voting ordinary shares to neutralise any dilutive effect of issues of non-voting ordinary shares made as a result of the share and share option plans described in the remuneration report or issues of shares or the grant of rights in respect of shares under the authority referred to in the previous paragraph if that authority is approved at the Annual General Meeting.

In addition to purchasing non-voting ordinary shares as described in the previous paragraph, the Board is also seeking authority at the Annual General Meeting on 24 April 2007 to make purchases of non-voting ordinary shares when the Directors consider such purchases to be otherwise appropriate. Further information is given in the notice of Annual General Meeting.

At its Annual General Meeting held on 26 April 2006, shareholders gave approval for the Company to purchase up to 14,750,000 non-voting ordinary shares. In 2006, pursuant to the Company's policy to purchase non-voting ordinary shares to neutralise any dilutive effect of issuing such shares under share and share option plans, 8,750,460 non-voting ordinary shares were repurchased for a total consideration of £83,981,907, at an average price excluding costs of £9.60 per share, representing 12.9 per cent. of the issued non-voting ordinary share capital as at 31 December 2006. Since the year end, a further 746,676 shares have been purchased. All shares purchased were cancelled. As at the date of this report there were 67,381,878 non-voting ordinary shares in issue.

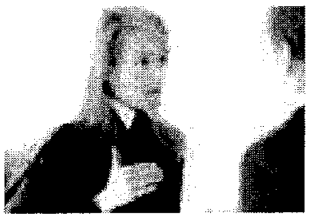
Pursuant to authority given by shareholders at the 2006 Annual General Meeting, the Company bought back the 200 subscriber shares in issue at a nominal price of one penny each, for a total consideration of £2, from Stephen Brooks and Graham Staples and subsequently cancelled these shares on 31 May 2006. As explained in the 2006 Notice of Annual General Meeting, the subscriber shares were bought back because the share class was no longer required.

Substantial shareholdings
As at the date of this report, the Company has received notifications in accordance with the FSA's Disclosure and Transparency Rule 5.1.2 R of the following interests in three per cent. or more of the voting rights attaching to the Company's issued share capital.

Voting rights attached to shares

Notifier	Class of shares	Number of shares	Number of voting rights		Percentage of voting rights	
		Direct	Direct	Indirect	Direct	Indirect
Vincitas Limited*	Ordinary	–	–	62,861,892	–	27.81
Veritas Limited*	Ordinary	–	–	37,308,464	–	16.51
Flavida Limited	Ordinary	–	–	62,861,892	–	27.81
Fervida Limited	Ordinary	–	–	38,278,700	–	16.94
Harris Associates L.P.	Ordinary	16,204,595	16,204,595	–	7.17	–

*Vincitas Limited and Veritas Limited act as trustees of certain settlements made by members of the Schroder Family. The interests of Flavida Limited and Fervida Limited include interests in voting rights in respect of all the shares in which Vincitas Limited and Veritas Limited are interested as trustees.



Directors' share interests
The interests of the Directors in the securities of the Company can be found in the remuneration report on pages 32 and 33.

Employees
Details of the Company's employment practices (including the employment of disabled persons) can be found in the corporate and social responsibility section of the Directors' report on page 40.

Charitable donations
The amount paid by Group companies to charitable organisations during 2006 was £616,000 (2005: £464,000), of which £393,000 (2005: £271,000) was donated to UK charities. Further information can be found in the corporate and social responsibility section. No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year (2005: nil).

Creditor payment policy
The Group's policy and practice in the UK is to agree the terms of payment with suppliers at the time of contract and to make payment in accordance with those terms subject to satisfactory performance. The Group does not follow any code or standard on payment practice. At 31 December 2006 the amount owed to the Group's trade creditors in the UK represented approximately 13 days' average purchases from suppliers (2005: 17 days).

Provision of information to auditors
So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the Directors has taken all steps that ought to have been taken by him or her as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

2007 Annual General Meeting
The Annual General Meeting will be held at 31 Gresham Street, London EC2V 7QA on 24 April 2007 at 11.30 a.m. Resolutions will be proposed at the Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as auditors and to authorise the Directors to fix their remuneration.

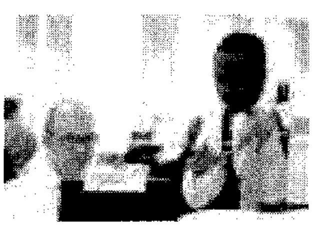
The notice of meeting also contains three items of special business: a general authority for the Directors to allot non-voting ordinary shares or to grant rights to subscribe for, or convert securities into, non-voting ordinary shares; a general authority for the Company to purchase its own non-voting ordinary shares; and proposed amendments to the Company's Articles of Association. The Board believes that each of the items of special business and all of the other items of business are in the interests of shareholders and recommends them to shareholders for approval.

Details of the special business and all the other items of business to be dealt with at the Annual General Meeting can be found in the notice of meeting on pages 96 to 98.

Indemnification of Directors
The Company's Articles of Association currently include an automatic indemnity in favour of its Directors and other officers (other than auditors) in certain limited circumstances. The proposed amendment to Article 146 which is to be considered by shareholders at the Company's 2007 Annual General Meeting (details of which are set out in the notice of Annual General Meeting on page 98) would have the effect of removing this automatic indemnity. If this amendment to Article 146 takes place, it is proposed that the Company immediately grants specific indemnities by way of deed to each of its Directors and its Company Secretary in place of the automatic indemnity. These specific indemnities would relate to certain losses and liabilities which the Directors and the Company Secretary may incur to third parties in the course of acting as Directors, or the Company Secretary, as the case may be, of the Company or as employees of the Company or of one of its UK subsidiaries. The indemnities would be uncapped in amount.

By Order of the Board
Graham Staples
Company Secretary
31 Gresham Street
London EC2V 7QA

8 March 2007



Corporate governance report

This section of our Annual Report sets out our approach to corporate governance in 2006. In it you will find information on the Board, how it operated, how it delegated its responsibilities to the Executive team and to the Board Committees, how those Committees discharged their responsibilities and how we evaluated the effectiveness of the Board, the Committees and the Directors. This report also discusses how we engaged with our shareholders and how we approached our corporate and social responsibilities.

Corporate governance review 2006

This review explains our overall approach to corporate governance, how we have applied the principles of the 2003 Combined Code on Corporate Governance, the extent to which we have complied with the Code's provisions and an explanation of those areas where we have not complied.

As one of the UK's largest asset managers, corporate governance is very important to us. We are committed to business integrity, high ethical values and professionalism across all our activities. The Board of Schroders plc supports the highest standards of corporate governance.

In 2004 the Board adopted the Schroders Governance Guidelines. These guidelines form the basis for how the Board and the Committees operate, what is expected of Directors and how they discharge their duties. The Guidelines, and all the other documents mentioned in this Annual Report, are available on the website at www.schroders.com, or from the Company Secretary.

The role of the Board

The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Board achieves this through a combination of deciding on issues itself, delegating responsibility to Board Committees and delegating authority to the Chief Executive. Certain matters can only be decided by the Board. These are contained in the 'Schedule of Matters Reserved to the Board' which can be found on the website and include consideration and approval of such matters as:

- The Group's strategy;
- Major acquisitions and disposals;
- Significant new business activities;
- The Annual Report and Accounts and other financial statements; and
- The annual budget.

The composition of the Board

There are currently 12 Directors. In addition to the Chairman there are four executive Directors and seven non-executive Directors, five of whom are considered by the Board to be independent. Profiles of the Directors are on pages 18 and 19.

Luc Bertrand joined the Board as a non-executive Director on 1 March 2006. There were no other changes to the Board during the year.

The Nominations Committee reviewed the composition of the Board in 2006 and recommended that the appointment of an additional independent non-executive Director should be considered. This search is progressing with a view to the Board making an appointment in 2007.

Chairman

The Chairman is Michael Miles. He is responsible for leading the Board. His other responsibilities are to ensure the effectiveness of the Board, monitor and evaluate the performance of the Chief Executive and ensure there is appropriate dialogue with our shareholders.

Chief Executive

The Chief Executive is Michael Dobson. He is responsible for the executive management of the business. This includes recommending to the Board the Group's strategy for building shareholder value over the long term through growth in profits.

The roles of the Chairman and Chief Executive are totally separate and each has a written job description setting out their respective responsibilities.

Senior Independent Director

The Senior Independent Director is Sir Peter Job. He is available to shareholders if they have concerns which have not or cannot be resolved through discussion with the Chairman or the executive Directors. Sir Peter also chairs meetings of the non-executive Directors at which the performance of the Chairman is reviewed.

Non-executive Directors

The Board considers that Andrew Beeson, Luc Bertrand, Sir Peter Job, Merlyn Lowther and Kevin Parry are independent non-executive Directors. None of the factors implying a lack of independence, as set out in the Combined Code, applies. George Mallinckrodt and Bruno Schroder are also non-executive Directors, but do not meet the test of independence in the Combined Code. However, the Board considers that both of them bring valuable experience to Board deliberations and that at all times they act in the best interests of all shareholders.

Time commitment
The Board is satisfied that the Chairman and each of the non-executive Directors committed sufficient time during 2006 to the fulfilment of their duties as Directors of the Company. During the year the Chairman stood down as chairman of Johnson Matthey and as a non-executive director of BP, his two principal external commitments. None of the non-executive Directors has any conflict of interest which has not been disclosed to the Board in accordance with the Company's Articles of Association.

External non-executive directorships
The Board believes, in principle, in the benefit of executive Directors and other employees accepting non-executive directorships of other companies in order to widen their skills and knowledge for the benefit of the Company. The Board has adopted a policy on external appointments which is designed to ensure that employees remain able to discharge their responsibilities to the Group. Directors and employees are usually permitted to retain any fees paid in respect of such appointments. Under the policy executive Directors may not take on more than one non-executive directorship of a FTSE 100 company or any chairmanship of such a company. None of the executive Directors currently holds a directorship of a FTSE 100 company.

To avoid potential conflicts of interest, non-executive Directors are expected to inform the Chairman before taking up any additional external appointments.

Board meetings
The Board held five meetings during 2006, including a two day off-site meeting which focused on the Group's strategy. The Board has a two year rolling plan of items for discussion, agreed between the Chairman and the Chief Executive. This plan is reviewed and adapted regularly to ensure that all of the matters reserved to the Board, as well as other key issues, are discussed at the appropriate time. At each Board meeting the Chief Executive provided a review of the business and its performance and the Chief Financial Officer provided a detailed review of the Group's financial position. In 2006 the range of subjects discussed included:
- The strategic development of the Group, including people strategy;
- The Group's financial results;
- The budget for 2007;
- The dividend;
- The Group's capital;
- Our regional businesses in Asia, Europe and the Americas;
- Our key business areas including Investment, Distribution, Private Equity and Private Banking;
- Our information technology and operational platforms;
- Approval of the acquisitions of NewFinance Capital and Aareal Asset Management; and
- Regulatory and governance issues.

Attendance at the Board meetings is set out in the table below:

	Maximum possible attendance	Meetings attended
Michael Miles	5	5
Michael Dobson	5	5
Jonathan Asquith	5	5
Luc Bertrand	4	4
Alan Brown	5	5
Andrew Beeson	5	5
Sir Peter Job	5	5
Merlyn Lowther	5	5
George Mallinckrodt	5	4
Kevin Parry	5	5
Bruno Schroder	5	5
Massimo Tosato	5	5

Information to the Board
Before each Board meeting Directors received comprehensive papers and reports on the issues to be discussed at the meeting. Senior executives below Board level also attended meetings to make presentations on their areas of responsibility. This gave the Board the opportunity to have direct access to executives below Board level. In addition to Board papers, Directors were provided with relevant information between meetings. This included information on management changes and the announcement of our quarterly trading updates. Directors were also sent copies of the minutes of the Group Management Committee meetings, the principal executive committee.

Support to the Board
The Board Secretary is responsible for advising and supporting the Chairman and the Board on corporate governance matters. Directors have access through the Board Secretary to independent professional advice at the Company's expense.

Insurance and indemnification
The Company maintains appropriate Directors' and Officers' liability insurance. Following a recent change in legislation the Company will be putting forward a proposal at the Annual General Meeting to make certain amendments to its Articles of Association, including in relation to the indemnification of Directors and funding of their defence costs. Further details are set out in the notice of meeting on pages 97 and 98. If such amendments are approved, it is also proposed that the Company enters into specific deeds of indemnity with each Director and the Company Secretary, as explained on page 22.

Chairman's Committee
Meetings of the Chairman and non-executive Directors, usually without the executive Directors present, are held prior to most scheduled Board meetings. Four such meetings were held in 2006 and matters discussed included the evaluation of the Board, the performance of the Chief Executive, shareholder relations and management succession. The Chief Executive attended meetings at the invitation of the Chairman. A further meeting of the Chairman's Committee was held to review the performance of the Chairman. The Chairman did not attend this meeting.

Delegated authorities
The Board has a formal schedule of matters reserved to it, subject to which authority to manage the business is delegated to the Chief Executive. He in turn delegates authority to the senior executive team which sits on the Group Management Committee. This is chaired by the Chief Executive and generally meets monthly to oversee the strategic management of the Group's business. The current members and their areas of responsibility are set out below:

Michael Dobson	Chief Executive
Jonathan Asquith	Chief Financial Officer
Alan Brown	Investment
Jamie Dorrien-Smith	Americas
Lester Gray	Asia Pacific
Philip Mallinckrodt	Corporate Development and Private Banking
Markus Ruetimann	Operations, IT and Human Resources
Massimo Tosato	Distribution
Howard Trust	General Counsel

The Board delegates certain of its responsibilities to its Remuneration, Nominations and Audit Committees. Summaries of the terms of reference of these Committees are set out on pages 26, 34 and 35 respectively, together with reports on the Committees' activities during the year. The Chairmen of the Audit and Remuneration Committees reported to the Board on the matters considered, and any significant issues that had arisen, at the next Board meeting after their Committees had met. Meetings of the Nominations Committee were held after the conclusion of scheduled Board meetings. All Directors received copies of the minutes of all Committee meetings.

Board effectiveness
Evaluation
The Board, led by the Chairman, reviewed during the year the effectiveness of the Board, the principal Board Committees and individual Directors. The Board considered alternative evaluation methods and agreed that internal evaluation using a Schroders-specific questionnaire was the most appropriate method this year. The responses to the questionnaire were analysed and reviewed with the Chairman. The Chairman also discussed the effectiveness of the Board with Directors on an individual basis. A report was prepared on the findings of the evaluation process and this was considered by the whole Board at its meeting in February 2007.

The performance of the Chief Executive was considered by the Chairman's Committee. The outcome was discussed by the Chairman with the Chief Executive.